



HF 2452 – Geothermal Tax Credit (LSB5658HV)
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Fiscal Note Version – New
Requestor: Representative Pettengill

Description

House File 2452 creates a new Geothermal Tax Credit. The income tax credit is equal to 10.0% of qualified geothermal heat pump installation expenditures. The new credit is available for residential installations. The tax credit is not refundable or transferable but unused amounts may be carried forward for up to 10 tax years. The tax credit is first available for calendar year 2017.

A taxpayer claiming the new Geothermal Tax Credit may not also claim the existing Geothermal Heat Pump Tax Credit available under [Iowa Code section 422.111](#) for the same installation.

Background

Iowa currently has a Geothermal Heat Pump Tax Credit equal to 20.0% of an existing federal heat pump installation credit. The federal credit is equal to 30.0% of installation costs so the current Iowa credit equals 6.0% of installation costs. Combined, the state and federal tax incentives under existing law equal 36.0% of installation costs.

The federal credit is set to expire at the end of calendar year 2016. If the federal tax credit is extended to calendar year 2017 and beyond, the incentives will total 40.0% under the provisions of this bill. If the federal credit is not extended, the total tax incentive available in Iowa will fall to 10.0% under this bill, and to 0.0% without the bill.

Assumptions

Iowans claimed an average of \$2.0 million in Geothermal Heat Pump Tax Credits from tax year 2012 through tax year 2014. At an effective credit rate of 6.0% of installation costs, the annual installation cost averages \$33.3 million per year.

For this estimate, the federal tax incentive is assumed to expire at the end of calendar year 2016. Expiration of the federal credit will reduce the combined state and federal income tax incentive from the current level of 36.0% of installation costs to 10.0%. This incentive reduction is assumed to reduce the attractiveness of residential geothermal installations and for this estimate, installations are assumed to equal 70.0% of the annual \$33.3 million in installation costs, or \$23.3 million. Installation costs beyond calendar year 2017 are assumed to increase 2.2% each year.

As a nonrefundable, nontransferable tax credit, each year's tax credits will be redeemed through tax return filing over several tax years. The assumed redemption pattern is:

- Year 1 = 66.0%
- Year 2 = 17.0%
- Year 3 = 5.0%
- Years 4 through 6 = 4.0%

Tax credits for calendar year 2017 installations are assumed to first impact the General Fund in FY 2018.

Fiscal Impact

Redemptions of the new Geothermal Tax Credit are projected to reduce State General Fund revenue by the following amounts:

- FY 2018 = \$1.5 million
- FY 2019 = \$2.0 million
- FY 2020 = \$2.1 million
- FY 2021 = \$2.3 million
- FY 2022 = \$2.5 million
- FY 2023 and future years = \$2.6 million

As a nonrefundable tax credit, the Geothermal Tax Credit will also reduce the local option income surtax for schools by a projected \$48,500 for FY 2018, growing to \$80,600 for FY 2023 and after.

Should Congress extend the expiring federal credit, the combined tax credit available in Iowa will increase from the current 36.0% to 40.0% of installation costs. This is assumed to keep residential geothermal installations at the current annual level and this in turn will increase the above fiscal estimates by 42.9% (\$2.2 million General Fund impact in FY 2018, growing to \$3.7 million by FY 2023).

Sources

Department of Revenue
Legislative Services Agency Analysis

/s/ Holly M. Lyons

April 13, 2016

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
